

**LEWIS BRISBOIS BISGAARD & SMITH LLP**

DANIEL C. DECARLO, SB# 160307

E-Mail: Dan.DeCarlo@lewisbrisbois.com

JOSEPHINE A. BROSAS, SB# 239342

E-Mail: Josephine.Brosas@lewisbrisbois.com

221 North Figueroa Street, Suite 1200

Los Angeles, California 90012

Telephone: 213.250.1800

Facsimile: 213.250.7900

Attorneys for Defendants Bright Trading

Corp., Steven Cheng, Diamond Footwear,

Inc., and Shirley Cheng

**UNITED STATES DISTRICT COURT**

**CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION**

DECKERS OUTDOOR  
CORPORATION a Delaware  
Corporation,

Plaintiff,

vs.

BRIGHT TRADING CORP., a  
California Corporation; STEVEN  
CHENG, an individual; DIAMOND  
FOOTWEAR, INC., a California  
Corporation; SHIRLEY CHENG, an  
individual and DOES 1-10, inclusive,

Defendants.

CASE NO. 2:14-CV-00198

*[Assigned To: The Hon. John A. Kronstadt  
Crtrm.: 750 - 7th Floor]*

**MEMORANDUM OF POINTS AND  
AUTHORITIES IN SUPPORT OF  
DEFENDANTS' STEVEN CHENG'S  
AND SHIRLEY CHENG'S MOTION  
TO DISMISS THE COMPLAINT  
PURSUANT TO FED.R.CIV.P 12(b)(6)**

*[Notice of Motion and [Proposed] Order  
Filed Concurrently Herewith]*

Hearing Date: April 21, 2014

Time: 8:30 a.m.

Courtroom: 750 – 7<sup>th</sup> Floor

## MEMORANDUM OF POINTS AND AUTHORITIES

### I. INTRODUCTION

Plaintiff Deckers Outdoor Corporation (“Deckers”) seeks to assert claims against corporate defendants Bright Trading Corp., Diamond Footwear, Inc., and individual defendants Steven Cheng and Shirley Cheng, for: (1) trade dress infringement; (2) false designations of origin and false descriptions; (3) federal unfair competition; (4) patent infringement; and (5) unfair competition under California common law.

The Complaint, however, lumps all defendants together as having committed all the alleged wrongful acts. The Complaint seeks to attach personal liability against the individual defendants, but the only allegation in the Complaint with respect to them personally is the following conclusory allegation:

Upon information and belief, Defendants Steven Cheng and Shirley Cheng are officers, members, directors, and/or managing agents of the defendant corporations, and are the active, moving, conscious forces behind the infringing activities alleged herein.

(Complaint, ¶26) (Dkt. #1).

The above vague, conclusory, and factually-devoid allegation is plainly insufficient to state a claim for personal liability against these individual defendants.

Under well-settled law, “the ‘corporate veil’ shields a company’s officers from personal liability for direct infringement that the officers commit in the name of the corporation, unless the corporation is the officers’ ‘alter ego.’” *Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1313 (Fed. Cir. 2010) (quoting *Wechsler v. Macke Int’l Trade, Inc.*, 486 F.3d 1286, 1295 (Fed. Cir. 2007) (Emphasis added)). Thus, to determine whether each of these individuals is “personally liable for the direct infringement of the corporation under § 271(a) requires invocation of those general principles relating to piercing the corporate veil.” *Orthokinetics Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986). Here, the alleged “infringing activities” are sales of the accused infringing products by the corporate

4835-5105-4104.1

1 defendants. See Complaint, ¶¶23-25. These corporate sales form the basis for all the  
 2 claims in the Complaint. The Complaint, however, is completely devoid of any  
 3 allegations that would hold these individual defendants personally liable for such sales.

4 Moreover, even assuming (as it is not clear from the face of the Complaint) that  
 5 Deckers does not claim alter ego liability or a theory of piercing the corporate veil  
 6 against these individual defendants, Deckers' Complaint also fails to satisfy the Rule 8  
 7 pleading standard because it fails to even plead—generally—sufficient facts that these  
 8 individual defendants should be personally liable for the alleged wrongful acts.  
 9 Deckers' pro-forma, conclusory and formulaic recitation that these defendants are the  
 10 "*active, moving, conscious forces behind the infringing activities*"—is simply  
 11 insufficient to state a claim. This utterly fails to give these individuals the **fair notice**  
 12 that is required under Rule 8.

13 The Complaint merely names these defendants individually **with no substantive**  
 14 **allegation directed to them personally**. Thus, without any other legal justification, it  
 15 appears that Deckers named these individual defendants only to gain some perceived  
 16 (*albeit* erroneously) litigation advantage by hauling these individual defendants into  
 17 Court. Accordingly, individual defendants Steven Cheng and Shirley Cheng  
 18 respectfully request the dismissal of all the claims asserted by Deckers against them<sup>1</sup>.

## 19 **II. LEGAL STANDARD**

20 Federal Rule of Civil Procedure 12(b)(6) allows a party to assert by motion the  
 21 defense that the complaint "fail[s] to state a claim upon which relief can be granted,"  
 22 generally referred to as a motion to dismiss. The Court evaluates whether a complaint  
 23 states a cognizable legal theory and sufficient facts in light of Federal Rule of Civil  
 24

25 <sup>1</sup> If the claims against Steven Cheng and Shirley Cheng are dismissed herein, or at some  
 26 later time, they expressly reserve the right to seek sanctions against Deckers and its  
 27 counsel in accordance with Fed.R.Civ.P. 11. It is doubtful that Deckers has met its  
 28 Rule 11 pleading requirements as to both individual defendants, and it is unclear as to  
 what the factual or evidentiary basis is for alleging personal liability as nothing has  
 been alleged in the Complaint.

1 Procedure 8(a), which requires a "short and plain statement of the claim" showing that  
 2 the pleader is entitled to relief. Although Rule 8 "does not require 'detailed factual  
 3 allegations,' . . . it [does] demand[] more than an unadorned, the-defendant-  
 4 unlawfully-harmed-me accusation." *Ashcroft v. Iqbal*, 556 U.S. 662, 129 S. Ct. 1937,  
 5 1949, 173 L. Ed. 2d 868 (2009) (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555,  
 6 127 S. Ct. 1955, 167 L. Ed. 2d 929 (2007)) (Emphasis added).

7 In other words, "a plaintiff's obligation to provide the 'grounds' for his  
 8 'entitle[ment] to relief' requires more than labels and conclusions, and a formulaic  
 9 recitation of the elements of a cause of action will not do." *Twombly*, 550 U.S. at 555  
 10 (citing *Papasan v. Allain*, 478 U.S. 265, 286, 106 S. Ct. 2932, 92 L. Ed. 2d 209 (1986)).  
 11 "Nor does a complaint suffice if it tenders 'naked assertion[s]' devoid of 'further  
 12 factual enhancement.'" *Iqbal*, 129 S. Ct. at 1949 (citing *Twombly*, 550 U.S. at 557).

13 "To survive a motion to dismiss, a complaint must contain sufficient factual  
 14 matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Id.*  
 15 (quoting *Twombly*, 550 U.S. at 570); *see also* Fed. R. Civ. P. 12(b)(6). A claim is  
 16 facially plausible when the facts pleaded "allow[] the court to draw the reasonable  
 17 inference that the defendant is liable for the misconduct alleged." *Id.* (citing *Twombly*,  
 18 550 U.S. at 556). That is not to say that the claim must be probable, but there must be  
 19 "more than a sheer possibility that a defendant has acted unlawfully." *Id.* Facts  
 20 "'merely consistent with' a defendant's liability" fall short of a plausible entitlement to  
 21 relief. *Id.* (quoting *Twombly*, 550 U.S. at 557). Further, **the Court need not accept as**  
 22 **true "legal conclusions" contained in the complaint.** *Id.* This review requires  
 23 context-specific analysis involving the Court's "judicial experience and common  
 24 sense." *Id.* at 1950. "[W]here the well-pleaded facts do not permit the court to infer  
 25 more than the mere possibility of misconduct, the complaint has alleged—but it has not  
 26 'show[n]' that the pleader is entitled to relief.'" *Id.*

27 **III. THE COMPLAINT MUST BE DISMISSED BECAUSE IT IS DEVOID OF**  
 28 **ANY FACTS THAT WOULD SUPPORT PERSONAL LIABILITY OF**

4835-5105-4104.1

**EACH OF THE INDIVIDUAL DEFENDANTS**

**A. Deckers' Claims Against Steven Cheng and Shirley Cheng Should be Dismissed Under the Well-Established Alter-Ego Doctrine.**

Under patent law, "the 'corporate veil' shields a company's officers from personal liability for direct infringement that the officers commit in the name of the corporation, unless the corporation is the officers' 'alter ego.'" *Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1313 (Fed. Cir. 2010) (quoting *Wechsler v. Macke Int'l Trade, Inc.*, 486 F.3d 1286, 1295 (Fed. Cir. 2007)). To determine whether alter ego liability applies under § 271(a), courts must apply the law of the regional circuit. *Wechsler*, 486 F.3d at 1295; *see also Wordtech*, 609 F.3d at 1313; *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986). The Ninth Circuit applies the law of the forum state, which in this case is California. *Wechsler*, 486 F.3d at 1295 (citing *Towe Antique Ford Found. v. IRS*, 999 F.2d 1387, 1391 (9th Cir. 1993)).

The corporate entity may only be disregarded—or the “corporate veil” pierced—where an abuse of the corporate privilege justifies holding the equitable ownership of a corporation liable for the actions of a corporation. *Roman Catholic Archbishop v. Sup. Ct.*, 15 Cal. App. 3d 405, 411 (Cal. Ct. App. 1971).

"California courts generally treat the alter ego doctrine as a drastic remedy and disregard the corporate form only reluctantly and cautiously." *Id.* In general, California courts allow the corporate veil to be pierced "[o]nly when (1) 'there is such a unity of interest and ownership that the individuality, or separateness, of the said person and the corporation has ceased,' and (2) 'an adherence to the fiction of the separate existence of the corporation would . . . sanction a fraud or promote injustice.'" *Id.* (quoting *Firstmark Capital Corp. v. Hempel Fin. Corp.*, 859 F.2d 92, 94 (9th Cir. 1988)).

The factors to be considered in applying the alter ego doctrine are, *inter alia*, “commingling of funds and other assets of the two entities, the holding out by one entity that it is liable for the debts of the other, identical equitable ownership in the two

1 entities, use of the same offices and employees, and use of one as a mere shell or  
 2 conduit for the affairs of the other.” *Roman Catholic Archbishop*, 15 Cal. App. 3d at  
 3 406-411. Other factors include “inadequate capitalization, disregard of corporate  
 4 formalities, lack of segregation of corporate records, and identical directors and  
 5 officers.” *Sonora Diamond Corp. v. Supt. Ct.*, 83 Cal. App. 4<sup>th</sup> 523, 538 (Cal. Ct. App.  
 6 2000).

7 Allegations of conduct required to “pierce the corporate veil” and hold the  
 8 individual defendants personally liable for acts they committed on behalf of the  
 9 corporation are remarkably absent from Deckers’ Complaint—likely, because evidence  
 10 of such simply does not exist. Here, the Complaint alleges only that:

11 Defendants Steven Cheng and Shirley Cheng *are officers, members,*  
 12 *directors, and/or managing agents of the defendant corporations*, and  
 13 are the active, moving, conscious forces *behind the infringing activities*  
 14 alleged herein.

15 Complaint, ¶26. (Emphasis added). The alleged “infringing activities” which form the  
 16 basis for each of the causes of action in the Complaint are *sales of the corporate*  
 17 *defendants, and not sales made by these individual defendants personally on behalf*  
 18 *of themselves individually*:

19 **“Defendants’ Infringement of the Bailey Button Boot Trade Dress**  
 20 **and Bailey Button Design Patents:**

21 \*\*\*

22 23. Upon information and belief, Plaintiff hereon avers that Defendant  
 23 Bright Trading Corp. advertises, offers for sale, and sells footwear,  
 24 including the Infringing Products, at its store, located at 9844 E. Rush  
 25 Street, South El Monte, California 91733.

26 24. Upon information and belief, Defendant Bright Trading Corp. has  
 27 offered for sale and/or sold the Infringing Products to other resellers  
 28 and/or retailers within this judicial district.



25. Upon information and belief, Defendant Diamond Footwear, Inc. is the designer, manufacturer, and/or supplier of the Infringing Products in question and has engaged in the offering for sale and/or sale of Infringing Products to various wholesalers and retailers, including Defendant Bright Trading Corp.

Complaint, ¶¶23-25 (Emphasis in original).

Thus, by its very allegations, Deckers' Complaint merely names Steven Cheng and Shirley Cheng as agents of the corporations and the "force" "behind" the corporate acts, but with no substantive allegation against them personally, and with no alleged facts that would support piercing the corporate veil.

Indeed, courts have dismissed claims brought against officers or directors of a corporation when the Complaint is devoid of facts such as here. For example, in *Weiland Sliding Doors & Windows, Inc. v. Panda Windows & Doors, LLC*, 2011 U.S. Dist. LEXIS 88742 (S.D. Cal. Aug. 10, 2011), the court dismissed the Plaintiff's causes of action against the named individual defendant, the president of the named corporate defendant in that case. According to the court: "Plaintiff fails to allege sufficient facts for this Court to reasonably infer that piercing the corporate veil is proper . . . Plaintiff fails to allege an inequitable result. 'The kind of inequitable result that makes alter ego liability appropriate is an abuse of the corporate form, such as under-capitalization or misrepresentation of the corporate structure to creditors.' Plaintiff makes no such allegations of inequitable result here." *Weiland*, 2011 US Dist. LEXIS 88742 at 5-6, citing to *Firstmark Capital Corp. v. Hempel Fin. Corp.*, 859 F.2d 92, 94 (9th Cir. 1988)

Similarly, in *Hoover Group v. Custom Metalcraft*, 84 F.3d 1408, 1412 (Fed. Cir. 1996), the Federal Circuit reversed the district court's ruling that held the individual defendant personally liable for patent infringement because [i]n the case at bar it was not alleged that [the corporate defendant's] corporate structure was a sham, or existed merely to shield [the individual defendant] from liability for 'fraud or wrong' or violation of any legal duty". In *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d

4835-5105-4104.1

1 544, 553, 16 U.S.P.Q.2D (BNA) 1587, 1594 (Fed. Cir. 1990) the Federal Circuit held  
 2 that "to be personally liable for Paramount's infringement under section 271(a), there  
 3 must be evidence to justify piercing the corporate veil." Id. at 552, 16 U.S.P.Q.2D  
 4 (BNA) at 1593.

5 Accordingly, Deckers' bare allegations fail to provide a sufficient basis for  
 6 personal liability against the individual defendants.

7 **B. Even Assuming that Deckers is Not Seeking to Pierce the Corporate**  
 8 **Veil, Claims Against Steven Cheng and Shirley Cheng Should**  
 9 **Nevertheless be Dismissed Because Such Claims Fails to Meet the**  
 10 **Rule 8 Pleading Standards.**

11 As an additional and independent ground, Deckers' Complaint also fails to  
 12 satisfy the Rule 8 pleading standard because it fails to even plead—generally—  
 13 sufficient facts that these individual defendants should be personally liable for the  
 14 alleged wrongful acts.

15 Here, Deckers' Complaint only alleges that Steven Cheng and Shirley Cheng  
 16 "are the active, moving, conscious forces behind the infringing activities alleged  
 17 herein". This is plainly insufficient under Rule 8.

18 As discussed above, Rule 8 requires "more than an unadorned, the-defendant-  
 19 unlawfully-harmed-me accusation." *Ashcroft, supra*. "[A] plaintiff's obligation to  
 20 provide the 'grounds' for his 'entitle[ment] to relief' requires more than labels and  
 21 conclusions, and a formulaic recitation of the elements of a cause of action will not do."  
 22 *Twombly*, 550 U.S. at 555.

23 In general, a corporate officer is personally liable for his tortious acts, just as any  
 24 individual may be liable for a civil wrong. "When personal wrongdoing is not  
 25 supported by legitimate corporate activity, the courts have assigned personal liability  
 26 for wrongful actions even when taken on behalf of the corporation. However, this  
 27 liability has been qualified, in extensive jurisprudence, by the distinction between  
 28 commercial torts committed in the course of the officer's employment, and negligent



1 and other culpable wrongful acts.” *Hoover*, 84 F.3d at 1411.

2 “Thus when a person in a control position causes the corporation to commit a  
3 civil wrong, imposition of personal liability requires consideration of the nature of the  
4 wrong, the culpability of the act, and whether the person acted in his/her personal  
5 interest or that of the corporation.” *Id.*, citing to 3A WILLIAM MEADE FLETCHER,  
6 FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS §§ 1134-1166 (1994  
7 REVISED VOLUME) (XXIX “LIABILITY OF OFFICERS AND DIRECTORS TO THIRD PERSONS  
8 FOR TORTS”).

9 “For example, corporate officers have been held personally liable when they  
10 participated in conversion, *id.* § 1140, breach of fiduciary duty, *id.* § 1141, fraud, *id.* §  
11 1143, and malicious prosecution, *id.* § 1160; and have been held **not** to be personally  
12 liable for commercial torts such as interference with contractual relations” **if they were**  
13 **acting in the corporation's interest**, *id.*” *Hoover*, 84 F.3d at 1411 (Emphasis added).

14 Finally, the cases relied upon<sup>2</sup> by Deckers are inapposite because they pertain,  
15 not to pleading requirements to assert personal liability, but the **evidence after**  
16 **summary judgment** and **trial** in holding the individual defendants personally liable.  
17 Specifically, in *Bambu Sales, Inc. v. Sultana Crackers, Inc.*, 683 F. Supp. 899, 914  
18 (E.D.N.Y. 1987), the court found that it was “uncontested” at the summary judgment  
19 that the individual defendants themselves purchased counterfeit goods and resold it to  
20 various other entities, arranged for the purchase and resale of the counterfeit  
21 merchandise, “personally received the merchandise, and was in fact the only individual  
22 at [the corporation] who was involved in the transactions”. *Id.* Thus, the court held the  
23 individual defendants personally liable.

24 Deckers’ reliance on *Babbit Elecs. v. Dynascan Corp.*, 828 F. Supp. 944, 960  
25 (S.D. Fla. 1993) equally fails because in that case, after a bench trial, the court found  
26

27 <sup>2</sup> We learned of Deckers’ alleged supporting authority by virtue of the pre-filing  
28 meet and confer.

1 that “[n]either [of the individual defendants] submitted any evidence to contest the fact  
2 that they authorized, directed and participated in the infringement”. *Id.*

3 Finally, in *Committee for Idaho's High Desert v. Yost*, 92 F.3d 814, 823 (9th Cir.  
4 Idaho 1996), the “district court found after trial that Yost, Hoffman and Johns  
5 ‘knowingly, intentionally and deliberately adopted and used [appellee's] name . . . in  
6 order to cause confusion, obstruct [appellee's] pursuit of its environmental agenda, and  
7 thereby to obtain an advantage in the snail de-listing litigation by preventing  
8 [appellee's] intervention therein’”. (Emphasis added).

9 Deckers’ allegations are precisely the type of fact-barren, conclusory pleading  
10 that is insufficient under Rule 8. The Complaint fails to provide these individual  
11 defendants with “fair notice of what the . . . claim is and the grounds upon which it  
12 rests.” *Twombly*, 550 U.S. at 555.

13 **IV. CONCLUSION**

14 For the foregoing reasons, the individual defendants respectfully request that the  
15 Court dismiss the claims against them. If mere pro-forma, conclusory and formulaic  
16 allegations that these defendants are the “*active, moving, conscious forces behind the*  
17 *infringing activities*” are found to suffice, this would bypass Rule 8 and alter ego  
18 pleading requirements, and open the floodgates of being able to assert *personal* liability  
19 against any corporation’s director or officer, without more.

20 Respectfully, submitted,

21 DATED: February 20, 2014

LEWIS BRISBOIS BISGAARD & SMITH LLP

22  
23  
24 By: /s/ Josephine A. Brosas

Daniel C. DeCarlo

Josephine A. Brosas

25 Attorneys for Defendants Bright Trading  
26 Corp., Steven Cheng, Diamond Footwear,  
27 Inc., and Shirley Cheng